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## MASSACHUSETTS SAVINGS-BANK INSURANCE AND PENSION SYSTEM.

BY LOUIS D. BRANDEIS.

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Massachusetts offers in its savings-bank insurance and pension system a partial solution of the problem of providing for the superannuated workingman. Unlike Germany, Massachusetts seeks to secure for her wage-earners voluntary instead of compulsory old age insurance. Unlike England, Massachusetts plans to make her superannuated workingmen independent instead of dependent, and to relieve instead of further burdening general taxation. She seeks to do this by creating the most efficient and inexpensive instrument for providing old age insurance,—to make saving by way of old age insurance popular by giving to the saver all that his money can earn, and to make the opportunities for saving the workingman's money as numerous as are the opportunities for wasting it.

The Massachusetts system of savings-bank insurance and annuities was made possible by Chapter 561 of the Acts of 1907, which authorized any savings-bank to establish under proper safeguards an insurance department for the issue to residents of Massachusetts of legal reserve life insurance limited to \$500 and annuities limited to \$200 a year on any one life. The Act, however, permits the same person to take out life insurance and annuities from more than one bank.

The purposes of the Act are:—

*First.* To give to Massachusetts wage-earners an opportunity to secure safe life insurance at the lowest possible cost as a substitute for industrial life insurance, on which the expense of conducting the business is about 40 per cent. of the premiums paid.

*Second.* To give to Massachusetts wage-earners an opportu-

ity to make provision for their old age by the purchase, out of current earnings, of annuities at the lowest possible cost.

The low cost of life insurance and annuities offered under the Massachusetts savings-bank system is attained:—

1. By eliminating entirely the paid solicitor of insurance and house-to-house collector of premiums.

2. By eliminating the cost of actuarial services and general medical supervision, this work being done by the State Actuary and State Medical Director for all savings insurance banks, without charge to the bank.

3. By utilizing the high net earning capacity of the savings-banks for investing funds.

4. By substituting for the paid solicitor and collector numerous unpaid agencies through which applications for insurance and annuities may be made and at which premiums may be paid.

Under the savings-bank insurance and annuity act the goodwill, organization, and efficiency of the savings-banks, developed in nearly a century of honorable service, are applied in furnishing opportunities for the other forms of saving more recently developed; namely, life insurance and old age annuities.

The Massachusetts savings-banks have no stockholders. Their trustees—generally men of high character and of large experience—serve substantially without pay, recognizing that the business of collecting and investing the savings of persons of small means is a *quasi*-public trust. The savings-banks are conducted by their officials as beneficent and not as selfish money-making institutions. They have a long record of large earnings on deposits and of small expenses of management. Though the character of permissible investments is narrowly limited by law to insure safety, these banks earned gross during the last ten years an average of 4.65 per cent. on deposits, while the average expense of management was less than  $\frac{1}{4}$  of 1 per cent.

The opportunities for safe and profitable investment afforded by the savings-banks have done much to make saving popular in Massachusetts, and account in a large degree for the pros-

perity of the Commonwealth. With a population of little more than three million people, Massachusetts has developed in her 189 savings-banks 1,973,926 separate deposit accounts, aggregating \$709,519,730, the average amount of each account being \$359.45. It is expected that the insurance department of the banks will in time become equally popular. The essential conditions under which the two departments are conducted are the same. In each department all the profits are applied to or for the benefit solely of those who intrust their savings to the bank.

Each savings-bank, through its trustees and incorporators, decides for itself whether it will extend its functions so as to include the issuance of annuities and life insurance. Likewise, each bank decides for itself whether it will engage in the annuity and insurance business on its own account or consent to act as agent for some other bank.

It is probable that for the present only a few of the savings-banks will establish an independent insurance department, and that the larger number of banks will act merely as agencies, because of the special guaranty fund provisions in the law.

No savings-bank may establish an insurance department until there has been provided for it a special guaranty fund to an amount approved by the State Actuary, which may not be less than \$25,000 for any bank. This guaranty fund, which would have to be raised by contributions from public-spirited persons, is placed at the risk of the business, to be repaid ultimately out of profits of the insurance department, with interest at the same rate as is paid by the savings-bank upon its savings deposits. Besides this special guaranty fund of the individual savings insurance bank, the law provides for a general guaranty fund derived through an assessment of 4 per cent. upon all premiums received by any of the banks. The funds so contributed are held as a guaranty for all obligations on policies or annuity contracts of the insurance departments of any of the savings and insurance banks. The safety of the insurance and annuity contracts is thus assured not only by the efficient supervision of

the Insurance Commissioner, the Bank Commissioner, and the State Actuary, but also by special and general guaranty funds.

While the law prohibits savings-banks from employing paid solicitors and collectors, it provides in the amplest manner for the solicitation of insurance and the collection of premiums through the establishment of private agencies. The plan contemplates that ultimately every large or fairly large employer of labor in the Commonwealth shall become an agency for some savings insurance bank; that agencies shall in the same manner be established with trade-unions and other workingmen's mutual benefit societies and with such welfare institutions as the Young's Men Christian Association and the settlement houses.

Through this system of unpaid agencies the work of solicitation will be done. For, while the savings-banks may at their own offices receive applications for insurance and premiums, it is not expected that more than a small percentage of the business will be done at the bank. The agencies will be the effective instrument for placing the insurance and for collecting premiums. Through the agency system the savings insurance bank will in effect go where the wage-earner and his money is instead of expecting the wage-earner to bring it to the bank. Through the agency system the payment of the individual premiums can be made practically automatic, so far as the insured is concerned, by his giving to his employer a standing order to deduct the amount of the insurance premium from his wages. The employer will then transmit monthly an amount equal to the premiums of all employees who have authorized this method of payment. On the other hand, where the policy holder deals directly with the bank, and has a deposit account with the bank, he may give a standing order to the bank to charge to his deposit account the monthly premiums required for his insurance or annuity policy.

The savings-bank organization supplies practically only one of the three factors in the insurance and annuity business. The bank serves by its good-will to attract business, and re-

ceives, invests, pays out, and accounts for the money; but the business itself is obtained, and the premiums are collected, mainly through the agencies. On the other hand, the technical insurance work—that of the actuarial department and the medical supervising department—is performed by the State officers; the State furnishing policy and other forms and the books of account, as well as the services of these experts, without charge. Thus the savings-bank performs for its insurance and annuity department, in the main, but little in addition to the same service that it does for its deposit department.

The relatively low cost of the insurance thus furnished by the Massachusetts savings-bank system is shown in a pamphlet\* recently published by the State Actuary, from which it appears that, under the savings-bank system, the old age annuity plus life insurance may cost less than the workingman now pays for his industrial life insurance alone:

“Suppose you are twenty-five years old and pay to the savings-bank \$1.30 each month, and your neighbor, who is the same age, pays \$1.35 each month to the insurance company. When you reach age sixty-five, you will have no more deposits to make. Instead of making deposits, you will begin to receive an annuity of \$100. While you are enjoying the fruits of your saving, your neighbor will still be paying \$1.35 every month to the insurance company, and he will have to continue paying this amount until he is seventy-five years old. Which would you rather be,—your neighbor or yourself?”

The savings-bank policies have other advantages besides the lower rate. They are participating policies, while the industrial insurance policies are non-participating. The savings-bank policies provide for “full immediate benefit,”—that is, payment of the face of the policy in case the insured dies at any time after the date of the policy; while the industrial insurance policies provide for payment of only one-half the face of the policy in case of death within six months after the date of the policy. Furthermore, the savings-bank life insurance policy is non-forfeitable for failure to pay premium after six monthly premiums have been paid, whereas the industrial insurance

\* See table on page 416.

policies lapse in case of failure to pay premium at any time within the first three years.

The Massachusetts savings-bank insurance and pension system was first put into operation on June 18, 1908, when the savings-bank of Whitman—a prosperous manufacturing town in South-eastern Massachusetts—opened the first insurance department established under the statute.

In November, 1908, the People's Savings Bank of Brockton—of which ex-Governor William L. Douglas is president—established its insurance department. Other savings-banks—those at Bridgewater, Ware, and Ludlow, all manufacturing communities—have taken agencies from the Whitman bank; and at least six other banks have now under consideration either the establishment of insurance departments or the taking of agencies.

Both the Whitman Savings Bank and the People's Savings Bank of Brockton have numerous private agencies, including manufacturers, mercantile establishments, labor unions, and welfare institutions. In this manner private agencies have already been established in Boston, Cambridge, Springfield, Lowell, Haverhill, Middleboro, North Abington, Norwood, and South Framingham.

The Massachusetts insurance and pension system can attain success only through the full appreciation by the employee, the employer, and the community that provision for old age and life insurance is an integral part of the daily cost of living; that no wage is a living wage which does not permit the workingman to set apart each day or week or month the necessary cost of such provision for the future; that no workingman can be truly self-supporting or independent who does not make such provision; and that the savings-bank will enable him to make the provision at the lowest possible cost.

To make general the appreciation of these facts involves an extensive, persistent, and long-continued campaign of education. This educational work was commenced in the fall of 1906 by the Massachusetts Savings Insurance League, when the project of savings-bank insurance was first submitted to the pub-

lic. The long strenuous campaign which preceded the passage of the Act resulted in a wide discussion of the subject in every part of the State. Nearly 300 labor unions joined in the effort to secure the requisite legislation. Presidents of the State Branch of the American Federation of Labor, of the Boston Central Labor Union, of the International Boot and Shoe Workers' Union, and the International Textile Workers' Union, thus representing Massachusetts' leading industries, were among its most enthusiastic supporters. Leading manufacturers, financiers, and social workers then gave the movement their support, and the educational work commenced has been continued ever since and has been much enlarged. In this educational work, employers, employees, social workers, and the churches are all taking part, and upon this wide-spread and concerted effort rests the confidence in the success of the system.



\* INSURANCE AND ANNUITY POLICY.

INSURANCE PAYABLE AT DEATH PRIOR TO AGE SIXTY-FIVE, ANNUITY COMMENCING AT AGE SIXTY-FIVE.

The figures below show the most you will have to pay and the least you will get. All the profits go to the policy holders.

| Age Next<br>Birthday. | Amount of Insurance and Annuity for Monthly Premium of |               |                       |               |                       |               |                  |               |                     |               |
|-----------------------|--|---------------|-----------------------|---------------|-----------------------|---------------|------------------|---------------|---------------------|---------------|
|                       | Premium,<br>25 cents.                                  |               | Premium,<br>50 cents. |               | Premium,<br>75 cents. |               | Premium,<br>\$1. |               | Premium,<br>\$1.25. |               |
|                       | Insur-<br>ance.  | Annu-<br>ity. | Insur-<br>ance.       | Annu-<br>ity. | Insur-<br>ance.       | Annu-<br>ity. | Insur-<br>ance.  | Annu-<br>ity. | Insur-<br>ance.     | Annu-<br>ity. |
| 18 . . . . .          | \$124  | \$24          | \$248                 | \$49          | \$372                 | \$75          | \$496            | \$99          | —                   | —             |
| 19 . . . . .          | 119  | 24            | 238                   | 48            | 357                   | 72            | 476              | 95            | —                   | —             |
| 20 . . . . .          | 115  | 23            | 230                   | 46            | 345                   | 69            | 460              | 92            | —                   | —             |
| 21 . . . . .          | 111  | 22            | 222                   | 44            | 333                   | 67            | 444              | 89            | —                   | —             |
| 22 . . . . .          | 107  | 21            | 214                   | 43            | 321                   | 64            | 428              | 86            | —                   | —             |
| 23 . . . . .          | 103  | 20            | 206                   | 41            | 309                   | 62            | 412              | 82            | —                   | —             |
| 24 . . . . .          | 100  | 20            | 200                   | 40            | 300                   | 60            | 400              | 80            | \$500               | \$100         |
| 25 . . . . .          | 96   | 19            | 192                   | 38            | 288                   | 58            | 384              | 77            | 480                 | 96            |
| 26 . . . . .          | 93   | 18            | 186                   | 37            | 279                   | 56            | 372              | 74            | 465                 | 93            |
| 27 . . . . .          | 89   | 17            | 178                   | 36            | 267                   | 54            | 356              | 71            | 445                 | 89            |
| 28 . . . . .          | 86   | 17            | 172                   | 34            | 258                   | 52            | 344              | 69            | 430                 | 86            |
| 29 . . . . .          | 83   | 16            | 166                   | 33            | 249                   | 50            | 332              | 66            | 415                 | 83            |
| 30 . . . . .          | 80   | 16            | 160                   | 32            | 240                   | 48            | 320              | 64            | 400                 | 80            |
| 31 . . . . .          | 77   | 15            | 154                   | 31            | 231                   | 46            | 308              | 62            | 385                 | 77            |
| 32 . . . . .          | 74   | 14            | 148                   | 30            | 222                   | 44            | 296              | 60            | 370                 | 74            |
| 33 . . . . .          | 71   | 14            | 142                   | 28            | 213                   | 43            | 284              | 57            | 355                 | 71            |
| 34 . . . . .          | 68   | 13            | 136                   | 27            | 204                   | 41            | 272              | 54            | 340                 | 68            |
| 35 . . . . .          | 65   | 13            | 130                   | 26            | 195                   | 39            | 260              | 52            | 325                 | 65            |
| 36 . . . . .          | 62   | 12            | 124                   | 25            | 186                   | 37            | 248              | 50            | 310                 | 62            |
| 37 . . . . .          | 60   | 12            | 120                   | 24            | 180                   | 36            | 240              | 48            | 300                 | 60            |
| 38 . . . . .          | 57   | 11            | 114                   | 23            | 171                   | 34            | 228              | 46            | 285                 | 57            |
| 39 . . . . .          | 54   | 10            | 108                   | 22            | 162                   | 33            | 216              | 43            | 270                 | 54            |
| 40 . . . . .          | 51   | 10            | 102                   | 21            | 153                   | 31            | 204              | 41            | 255                 | 51            |
| 41 . . . . .          | 49   | 9             | 98                    | 20            | 147                   | 29            | 196              | 39            | 245                 | 49            |
| 42 . . . . .          | 46   | 9             | 92                    | 19            | 138                   | 28            | 184              | 37            | 230                 | 46            |
| 43 . . . . .          | 44   | 8             | 88                    | 18            | 132                   | 26            | 176              | 35            | 220                 | 44            |
| 44 . . . . .          | 41   | 8             | 82                    | 17            | 123                   | 25            | 164              | 33            | 205                 | 41            |
| 45 . . . . .          | 39   | 7             | 78                    | 16            | 117                   | 23            | 156              | 31            | 195                 | 39            |
| 46 . . . . .          | 36   | 7             | 72                    | 15            | 108                   | 22            | 144              | 29            | 180                 | 36            |
| 47 . . . . .          | 34   | 6             | 68                    | 14            | 102                   | 20            | 136              | 27            | 170                 | 34            |
| 48 . . . . .          | 32   | 6             | 64                    | 13            | 96                    | 18            | 128              | 26            | 160                 | 32            |
| 49 . . . . .          | 30   | 6             | 60                    | 12            | 90                    | 18            | 120              | 24            | 150                 | 30            |
| 50 . . . . .          | 27   | 5             | 54                    | 11            | 81                    | 16            | 108              | 22            | 135                 | 27            |